Dependent Care Assistance Account & Federal Income Tax Credit Comparison

Under the IRS code, two tax advantage options are available for dependent care expenses. You may use one or the other, or a combination of both, as long as you do not obtain pre-tax treatment and file for a tax credit on the same money. You should consult a qualified tax advisor to determine which option is best for you.



Option 1: Dependent Care Assistance Account

Using the Dependent Care Assistance Account you may put up to \$5,000 (\$2,500 if married and filing separately) into your account on a pre-tax basis. The maximum that can be used for this account does not coincide with the number of children in daycare. You will save Federal Income Tax (10% - 35%), FICA (7.65%), and State Income Tax (0% - 6+%) on any money contributed. The savings range from 17.65% to 48.65% depending on your federal tax bracket and state vou live in.



Option 2: Federal Income Tax Credit

You are allowed to take a credit on your personal taxes, for the work-related child and dependent care expenses you incur. The maximum expense that may be considered is \$3,000 for one qualifying dependent or \$6,000 for two or more. However, only a percentage of these expenses may be deducted. The percentage depends on your adjusted gross income (or joint adjusted gross income if you and your spouse file a joint return.) You may take a credit of between 20% and 35% of your dependent care expenses, as shown on the chart below:

Adjusted Gross Income			Tax Credit Percentage
\$43,001	То	No limit	20%
\$41,001	То	\$43,000	21%
\$39,001	То	\$41,000	22%
\$37,001	То	\$39,000	23%
\$35,001	То	\$37,000	24%
\$33,001	То	\$35,000	25%
\$31,001	То	\$33,000	26%
\$29,001	То	\$31,000	27%
\$27,001	То	\$29,000	28%
\$25,001	То	\$27,000	29%
\$23,001	То	\$25,000	30%
\$21,001	То	\$23,000	31%
\$19,001	То	\$21,000	32%
\$17,001	То	\$19,000	33%
\$15,001	To	\$17,000	34%
\$15,000	or	Less	35%

